

Smallholder Tea Venture in Kilolo, Tanzania 13 February 2012.

Establish a modern tea factory in co-ownership with a newly established Small Tea Growers Association providing 1,000 smallholders some 3,000ha for planting tea with a 200ha tea plantation managed by the factory.

Client, operational concept and present status

Cyprian Tweve of CB company, the client, wants to establish a tea factory in Kilolo District with a core estate of at least 200 ha. Surrounding it will be blocks of tea belonging to smallholders who sell green leaf to the factory. The factory and core estate shall be owned by at least 51% by Cyprian, while the smallholders are invited to buy into the remaining 49%. At a later stage toll-processing of the tea on behalf of the smallholders can be envisaged whereby smallholders then sell made tea. Smallholders will be organized into a Small Tea Growers Association that will be Cyprians partner. The overall tea acreage can go beyond 3000 ha, involving a minimum of 1000 smallholder families.

State-of-the-art machinery will be installed into a new factory and plantations established and managed right from the beginning for achieving top quality. Also Fair Trade standards shall be designed into the venture right from the beginning.

Cyprian has already secured 200 ha for the core estate and factory. He also has a letter of endorsement of the venture by the Tanzanian Tea Board.

Status of Venture

1. We have the operational and business concept defined
2. We have a first draft of the financial projections
3. This draft has been assessed by James Foster, tea specialist of the Wood Family Trust. He tells us we have done our homework and that the quality of our work easily surpasses the preparations that had been made for most other already operating Tanzanian tea ventures he has looked into.
4. Of the four locations James has analysed so far Kilolo has by far the poorest population and therefore the most potential impact on poverty.
5. John Gichuru of IFAD in Daressalaam has seen the documentation and explained to Cyprian that IFAD does not engage with the private sector. However, we know that recently IFAD has adapted its policies to be able to directly engage with private ventures that have an effect on rural poverty.

Remaining Concerns

Some technical issues remain to be sorted out, mainly:

1. James Foster believes there will be substantial seasonal yield fluctuations due to the rainfall patterns in the area. This can be easily offset with irrigation from perennial streams adjacent to the core estate. Also Kilolo has a few cold months that will reduce the yield, again offset by the estate being in the lowest altitudes of the District. James says Kilolo should be able to produce top quality tea due to climate and soils, it's just the yield fluctuations that need to be taken care of. Of the four locations James has looked into in detail Kilolo would be climatically the toughest to work out. With a strong focus on exploiting the potential for quality it should be manageable.
2. Analysts expect the world tea prices to peak and then decline within 3-4 years once the rapidly growing production meets the not so rapidly growing demand. Whether and when this happens and how steep the decline will be is speculation. But we need to better understand how price fluctuations on the Mombasa market will hit the business model. This can be offset by strict quality measures, which should be easily achieved because we are starting from scratch with new equipment and new farmers where correct quality-oriented behaviour can be engendered right from the beginning (it's hard to change later).

Financing Requirements

Overall investments, including an expanded core estate and smallholder plantations, are projected to be around 12-13 Mio USD.

We have talked with farmers and diverse funding agencies:

1. The small farmers will only plant tea when they see a factory going up.
2. The Tanzanian Investment Bank TIB will provide very favourable loans for building the factory (about 2.5 Mio USD) when they see planted tea that will feed the factory.
3. responsAbility will invest when they see an ongoing operation that can scale up
4. Wood Family Trust will invest in the establishment of smallholder plantations when the factory with core estate can show commercial viability.
5. Therefore the bottleneck at present is **where to find the 1 Mio USD for establishing the 200 ha core estate** along with its feeder roads, tractors and staff quarters.

Financing Target

1. If 1 Mio can be found to invest into establishing the core estate, then TIB will provide a loan to build the factory
2. When the factory goes up farmers will plant tea. Wood Family Trust will invest in farmer-owned plantations
3. When tea is produced responsAbility will invest for further expansion
4. Therefore: **1 Mio USD initial investment will trigger up to 12 Mio USD further investments from the private sector.**

Financing Proposal

1. IFAD or other public source to be the trigger investor
2. Once public investor says they are interested, RAVI can then negotiate with all above-mentioned (and further?) actors to reach a Letter of Agreement among all of them for financing the whole venture, in stages.
3. With the LoA signed, public investor will be able to invest the first million USD. This can be:
 - As a **grant** to CB company Ltd, or
 - As **equity** in the framework of a **public private partnership** between IFAD as the public partner and CB as the private partner. The definition of the venture would be the **establishment of a modern tea estate designed specifically for smallholder tea growers**, within a duration of 5-10 years. Further partners to the venture can come in after launch. The equity of IFAD is then gradually transferred into ownership of the small growers association through mechanisms yet to be figured out (eg. 10 TSH per kg greenleaf delivered by small holders goes into buying equity off IFAD by their association).
4. RAVI to be the chief private-sector conceptualizer and project mover, and after launch of the venture due-diligence agent on behalf of the investors.